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LETTER DATED 24 AUGUST 1999 FROM THE CHAIRMAN OF THE SECURITY COUNCIL COMMITTEE ESTABLISHED BY RESOLUTION 661 (1990) CONCERNING THE SITUATION BETWEEN IRAQ AND KUWAIT ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to transmit herewith, pursuant to paragraph 10 of Security Council resolution 1242 (1999), a report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait. The report was approved by the Committee on 24 August 1999.

(Signed) A. Peter VAN WALSUM
Chairman
Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait

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Annex

Report of the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995)

I. INTRODUCTION

1. The present report is submitted to the Security Council pursuant to paragraph 10 of resolution 1242 (1999), in which the Committee was requested, in close coordination with the Secretary-General, to report to the Security Council 90 days after the entry into force of paragraph 1 of that resolution on the implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). By paragraph 1 of resolution 1242 (1999), the Council decided that the provisions of resolution 986 (1995), except those contained in paragraphs 4, 11 and 12, would remain in force for a new period of 180 days beginning at 0001 hours Eastern Standard Time on 25 May 1999.

2. The present report, the eleventh of its kind, covers the Committee's major activities with regard to the implementation of the above-mentioned arrangements during the first 90-day period of phase VI of the oil-for-food programme after paragraph 1 of resolution 1242 (1999) came into force on 25 May 1999.

II. SALE OF PETROLEUM AND PETROLEUM PRODUCTS

3. Since the beginning of phase VI the export of petroleum from Iraq has proceeded smoothly, with excellent cooperation among the oil overseers, the independent inspection agents (Saybolt), the Iraqi State Oil Marketing Organization and the national oil purchasers.

4. The overseers continued to advise the Committee on the oil pricing mechanisms, oil contract approval and modifications, management of the revenue objective and other pertinent questions related to export and monitoring, under Security Council resolutions 986 (1995), 1175 (1998) and 1242 (1999).

5. There was an increase in the total level of oil exports from Iraq during phase V, with a larger share of crude oil exported from Mina al-Bakr. That trend has continued thus far in the current phase. The Committee recalls in this connection its note dated 22 April 1999 and will keep this situation under review.

6. As at 12 August 1999, the Committee, acting upon the recommendation of the overseers, had reviewed and approved a total of 78 oil contracts for the sale of oil in phase VI, involving purchasers from 33 countries. The total quantity of oil approved for export under those contracts is approximately 371 million barrels for phase VI. All contracts submitted used the pricing mechanisms approved by the Committee, on the recommendation of the overseers.

7. As at 12 August 1999, 116 liftings, totalling 149.1 million barrels worth US$ 2,465 million, have been completed. Letters of credit opened for each of the liftings were reviewed and confirmed by the overseers in accordance with the terms and conditions of the approved contracts. About 45 per cent of the liftings were made at Ceyhan in Turkey. At current prices, the total revenue for phase VI is estimated to be potentially around $6.5 billion, including the pipeline fees valued at $201 million, subject to appropriate authorization of revenues above the amount authorized by the Security Council. The Committee recalls the decision of the Security Council to keep the arrangements of resolution 1242 (1999) under review.

8. The overseers have worked with the independent inspection agents (Saybolt) to ensure the effective monitoring of the relevant oil installations and the liftings. They have received the full cooperation of the Iraqi authorities.

9. Pursuant to paragraph 2 of the procedures of the Committee (S/1996/636), 367 national oil purchasers, who are authorized to communicate directly with the overseers, have been nominated from 60 countries.

10. Pursuant to paragraph 14 of the procedures of the Committee, the overseers have continued to report to it once a week on the contracts considered by them regarding the sale of petroleum originating in Iraq, including the cumulative quantity and approximate value of petroleum authorized for export. To date, 138 reports have been submitted to the Committee.

11. After the departure of one oil overseer, as at 1 July 1999 one oil overseer remains on duty. Pursuant to paragraph 1 of the procedures of the Committee for the implementation of the oil-for-food arrangements (S/1996/636), the Committee will continue its consideration of the question of filling the vacancies in the team of overseers. The Committee is concerned about the situation and is committed to reaching a solution as soon as possible. In the meantime, the remaining overseer attends diligently to current affairs.

III. HUMANITARIAN SUPPLIES TO IRAQ

12. As in previous phases, during the first 90-day period of phase VI, the Committee continued to attach high priority to the work of processing contracts for the supply of humanitarian goods to Iraq.

13. As at 15 August 1999, the Secretariat has received 1,163 applications under phase V for exports of humanitarian supplies to Iraq. Of that total, 16 were subsequently cancelled, 967 have been circulated to Committee members for action and 180 are still being processed. Of those sent to the Committee for consideration, 773 have been found eligible for payment from the United Nations Iraq Account, totalling approximately $1.4 billion; 20 are still pending under the "no-objection" procedure; and 174, with a total value of $297,508,166, have been placed on hold. During the same period, the Secretariat has received 125 applications under phase VI for exports of humanitarian supplies to Iraq. Sixteen of this total have been circulated to Committee members for action and 109 are still being processed. Of those sent to the Committee for consideration, 9 have been found eligible for payment from the United Nations

Iraq Account, totalling approximately $125 million; 2 are still pending under the "no-objection" procedure; and 5, with a total value of $8,245,502, have been placed on hold.

14. It should be noted in this connection that the Secretariat has been unable to circulate to the members of the Committee increasing numbers of contracts it has received during this period which contain payment mechanisms that are considered to be inconsistent with the existing arrangements, as well as the guidelines and procedures of the Committee. This has caused a delay in the circulation of such contracts. The Government of Iraq has begun to amend the affected contracts to bring them into conformity with the Committee's guidelines and procedures.

15. The work of goods-arrival confirmation by the United Nations independent inspection agents (Cotecna) has continued according to the established procedures, at the four entry points to Iraq at Al-Walid, Trebil, Umm Qasr and Zakho. As in previous phases, the Iraqi authorities have accorded the independent agents full cooperation in their work. During the first half of phase VI, 4,012 consignments of humanitarian supplies from previous phases have been confirmed as having arrived in Iraq in total or in partial shipments.

16. Members of the Committee reviewed the situation with regard to holds on 18 June 1999. The Committee intends to convene another meeting during this phase to review humanitarian contracts that have been placed on hold.

IV. MATTERS RELATING TO OIL SPARE PARTS AND EQUIPMENT FOR IRAQ

17. By paragraph 2 of resolution 1175 (1998), the Security Council requested the Committee, or a panel of experts appointed by the Committee, to approve contracts for the parts and equipment referred to in paragraph 1 of that resolution according to lists of parts and equipment approved by the Committee for each individual project. By paragraph 3 of the resolution, the Security Council further decided that up to a total of $300 million from the escrow account might be used for that purpose. That arrangement was reaffirmed by paragraph 9 of resolution 1242 (1999).

18. The Committee has been making continuous efforts to expedite the approval process for contracts for sending oil spare parts and equipment to Iraq in accordance with existing procedures. To that end, the Committee invited the oil experts from Saybolt Nederland BV, the independent agents monitoring Iraq's oil export under resolution 986 (1995), to brief the Committee on 13 July 1999 on the need for Iraq to import spare parts and equipment necessary to increase its oil output. Earlier in July, the Secretary-General submitted to the Security Council the report of a group of experts on the general situation of the oil industry of Iraq (S/1999/746, annex).

19. During the period covered by the present report, the Secretariat has received 316 new applications valued at $9,553,320 to ship oil spare parts and equipment to Iraq and circulated 327 applications to the members of the Committee for consideration, including those left from previous resolutions. A total of 174 applications with a value of $56,038,663 have been approved during

this period, including 16 applications valued at $5,667,340 which were released from previous holds since the Committee's last report. At the same time, 197 contracts valued at $91,691,605 have been placed on hold (34 of them, valued at $11,387,725, subsequently released from holds). As at 15 August 1999, applications remaining on hold number 262, with a value of $124,058,269.

20. From the beginning of the process until 15 August 1999, the number of applications received by the Committee to ship oil spare parts and equipment to Iraq under previous resolutions has reached a total of 1,089 with a value of $562,138,357. Of these, 936 have been circulated to the members of the Committee for consideration; 5 are being reviewed by Committee experts awaiting amendments to the distribution plan; 114 have been returned to the applicant missions for clarification; and 34 have been declared null and void. Of the 936 applications circulated, 653 have been approved with a total value of $320,477,650; 262 valued at $124,058,269 have been placed on hold; and 21 applications are pending under the "no-objection" procedure. As at 15 August 1999, 201 such shipments have arrived in Iraq in total or in part.

21. Members of the Committee reviewed contracts for oil parts and equipment that were placed on hold on 13 July 1999 and the Committee intends to convene another meeting during this phase to review the situation.

V. OTHER ACTIVITIES

22. The Committee held three formal meetings and seven informal consultations at expert level during the reporting period to discuss various issues related to the implementation of the oil-for-food programme. The Committee considered, inter alia, the following issues:

(a) Members of the Committee discussed a report of the Board of Auditors on the audit of the United Nations Escrow Account (the Iraq Account) for the period from 1 January to 30 June 1998. In a letter dated 26 July 1999 addressed to the Secretary-General, who forwarded the report to the Committee, the Committee expressed its concern with regard to the absence of specific audits of the operations of United Nations implementing agencies under resolution 986 (1995). The Committee would welcome future reporting on management audits of the agencies' activities related to resolution 986 (1995).

(b) Members of the Committee discussed a paper prepared by the Office of the Iraq Programme concerning contracts with payment mechanisms for the 53 per cent account under Security Council resolution 986 (1995) (the so-called "retention contracts"). There was agreement among members of the Committee that both the supplier and the purchaser should be notified in each case to amend the contracts before circulation in accordance with the standard approved guidelines of the Committee.

(c) Members of the Committee continued discussions on the issue of reimbursement from the 13 per cent account to the 53 per cent account for joint purchases of bulk food and medicines. As at 23 August 1999, the accumulated reimbursable balance totals $199.9 million.

VI. CONCLUSIONS

23. The Committee is committed to working closely with the Office of the Iraq Programme and all parties concerned to ensure the effective implementation of the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of resolution 986 (1995). As in the past, the Committee wishes to reiterate its appreciation to all parties concerned for their cooperation and contribution in this regard.